Investment Climate Statement 2013 – Macedonia

Openness to, and Restrictions Upon, Foreign Investment

As a small, open economy, Macedonia is heavily dependent on foreign direct investment (FDI), and therefore continues to take active steps to attract more foreign investors. Follow-through and rule of law issues, however, remain concerns. The country has enacted legislation that not only provides roughly equal footing for foreign investors as compared to their domestic counterparts, but which also provides numerous incentives to attract such investment. Macedonia consistently provides national treatment to foreign investors. The country has concluded a number of bilateral investment protection treaties and has adopted other multilateral conventions that impose stricter standards of protection for foreign investors, but none with the United States.

Macedonia's legal and regulatory framework is generally favorable and Macedonia continues to implement market-based reforms. Challenges remain, however, for foreign and national investors. These include corruption, lack of transparency, lack of capacity and communication in and among ministries, and concerns about the rule of law and proper contract enforcement. Rule of law concerns include the judiciary's ability to efficiently and uniformly apply the law, even in high-profile cases. Many law enforcement actions showed the appearance of impropriety and selective prosecution. Although many changes have been legislated, implementation is inconsistent often due to lack of institutional capacity. Macedonia's aspirations to join both NATO and the European Union remain stalled due to the protracted dispute with Greece over Macedonia's constitutional name. This has resulted in concerns for the country's economic and political stability should Macedonia remain outside these structures. In addition, the global economic crisis and the euro zone debt crisis have caused a significant slowdown in FDI coming into Macedonia in recent years. In 2012, FDI slumped from USD 410 million in 2011 to only USD 61 million for the first ten months of the year. Much of this decrease is due to the outflow of profits of foreign-owned companies. Although the global economic crisis has undoubtedly played a role in limiting funds available for investment, corruption, rule of law concerns and stalled Euro-Atlantic integration have played a greater role in limiting Macedonia's attraction of significant FDI. FDI accounted for 4 percent of GDP in 2011 and is expected to be much lower in 2012, currently standing at 0.6 percent of GDP.

The Constitution of the Republic of Macedonia guarantees equal position for all entities in the market and provides for free transfer and repatriation of investment capital and profits for foreign investors. Macedonia's privatization process is nearing completion and private capital is dominant in the market. The government is trying to sell the remaining four loss-making companies through international tenders. There are less than 15 state-owned companies, primarily public utilities. The government is considering selling a minority share in only one of them – the power generating company ELEM. Under Macedonian law, foreign and domestic investors have equal opportunity to participate in the privatization of remaining state-owned assets. There is no single law regulating foreign investments. Rather, the legal framework is comprised of several laws including the: Trade Companies Law; Securities Law; Profit Tax Law;

Customs Law; VAT Law; Law on Trade; Law on Acquiring Shareholding Companies; Foreign Exchange Operations Law; Payment Operations Law; Law on Foreign Loan Relations; Law on Privatization of State-owned Capital; Law on Investment Funds; and Banking Law.

Over the last year, Macedonia retained its high ranking in the World Bank's 2013 Ease of Doing Business Report, dropping a notch from 22nd to 23rd position, while retaining a BB+ credit rating from Fitch and from S&P. However, Transparency International ranked Macedonia in 69th position out of 176 countries, giving it a score of 43 (on a 0 to 100 scale where 100 is least corrupt) from the new method of scoring in the 2012 Corruption Perception Index. In 2011 Macedonia had a score of 3.9 on a 0 to 10 scale where 10 was the least corrupt.

The Government of Macedonia is the largest employer in the country and constitutes one of the largest purchasers of goods and services. While efforts supported by the U.S. and other donors to safeguard transparency and fair dealing have met with some success, the public procurement and tendering processes remains opaque and prone to misuse. Many companies complain that tender procedures are frequently written to exclude or "fix" the competition. Oftentimes the conditions for bidding are changed during the tender process, leading some bidders to withdraw. The results of NGO studies on this topic are consistent with these anecdotal claims. For instance, nearly one in four public procurement tenders are cancelled, and the number of bidders participating in annulled tenders was twice that of the number of companies participating in procedures where a winning bid was selected. E-Procurement procedures, which reduce the opportunity for corruption and the appearance of impropriety, have been effective and have gained international recognition, but efforts to expand their use must continue in order for Macedonia to realize their full benefit.

- The Trade Companies Law

This is the primary law regulating business activity in Macedonia. It defines the types of companies allowed to operate in Macedonia, as well as procedures and regulations for their establishment and operation. All foreign investors are granted national treatment, and are entitled to establish and operate all types of private or joint-stock companies. Foreign investors are not required to obtain special permission from state-authorized institutions other than what is customarily required by law.

- Law on Privatization of State-owned Capital

Foreign investors are guaranteed equal rights with domestic investors when bidding on tenders for company share packages owned by the government. There are no legal impediments to foreign investors participating in the privatization process of domestic companies.

- Foreign Loan Relations Law

This law regulates the credit relations of domestic entities with those abroad. Specifically, it regulates the terms by which foreign investors can convert their claims into deposits, shares, or equity investments with the debtor company or bank. The Foreign Loan Relations Law also enables rescheduled debt to be converted into foreign investment in certain sectors or in secondary capital markets.

- Law on Investment Funds

A revised Law on Investment Funds was adopted in 2009. The new law governs the conditions for incorporation of investment funds and investment fund management companies, the manner and supervisory control of their operations, and the process of selection of a depository bank. The law does not discriminate against foreign investors in establishing open-ended or closed investment funds.

- Law on Takeover of Shareholding Companies

This law regulates the conditions and procedures for purchasing more than 25 percent of the voting shares of a company. The company must be listed on an official stock market and must have at least 25 employees and initial capital of EUR 2 million. This law does not apply to shares in companies owned by the Republic of Macedonia.

- Law on Foreign Exchange Operations

This law establishes the terms for further liberalization of capital transactions. It regulates current and capital transactions between residents and non-residents, the transfer of funds across borders, as well as all foreign exchange operations. All current transactions (e.g., all transactions that are eventually registered in the current account of the balance of payments, such as trade and private transfers) of foreign entities are allowed. There are no restrictions for non-residents wishing to invest in Macedonia. Foreign investors may repatriate both profits and funds acquired by selling shares after paying regular taxes and social contributions. In case of expropriation, foreign investors have the right to choose their preferred form of reimbursement. Since 2008, foreign nationals have been permitted to own land in Macedonia, and may invest in or own fixed assets and real estate. Foreign investors may also establish companies of any kind.

- Profit Tax Law

The corporate profit tax rate is 10 percent. At the beginning of 2006, the GOM amended the Profit Tax Law and introduced a withholding tax on income of foreign legal entities. The withholding tax is applied to income from: dividends, interest, management consulting, financial, technical, administrative, research, and development services, leasing of assets, awards, insurance premiums, telecommunication services, author fees, and sports and entertainment activities. Income from all of these activities is subject to a 15 percent withholding tax rate, except for income from interest and rent proceeds from the leasing of real estate, which are taxed at a 10 percent rate. This withholding tax does not apply to legal entities from countries which have signed an agreement to avoid double taxation with Macedonia. The United States does not have such an agreement with Macedonia.

- Other Legal Considerations

Foreign investment may be in the form of money, equipment, or raw materials. According to the law, foreign investors have the right to receive the full value of their investment in the case of nationalization, a provision which does not apply to national investors.

The privatization process is governed by the Law on Transformation of Enterprises with Social Capital (Official Gazette 38/93) and the Law on Privatization of State-owned Capital (Official Gazette 37/96). To finalize the privatization of remaining loss-making and bankrupted state companies, the government offered large discounts on the nominal value of the shares and did not impose employment and investment requirements. The telecom company Makedonski Telekom was the largest state-owned entity privatized to date.

Foreign investors are allowed to invest directly in all industry and business sectors except those limited by law. Investment in the production of weaponry and narcotics is subject to government approval. Investors in some sectors such as banking, financial services, and insurance must meet certain licensing requirements that apply equally to both domestic and foreign investors.

Conversion and Transfer Policies

Macedonia's national currency, the Denar (MKD), while fully convertible within the domestic market, is not convertible on foreign exchange markets. Conversion of most foreign currencies is possible on the official foreign exchange market. In addition to banks and savings houses, numerous authorized exchange offices also provide exchange services. The National Bank of the Republic of Macedonia operates the foreign exchange market, but participates on an equal basis with other entities. Required foreign currency reserves are spelled out in the banking law. There are no restrictions on the purchase of foreign currency by residents.

Parallel foreign exchange markets do not exist in Macedonia, largely due to the long-term stability of the Denar. The National Bank of the Republic of Macedonia has successfully pegged the Denar to the Euro and has kept inflation low.

The Constitution of Macedonia guarantees the free transfer and repatriation of investment capital and profits. By law, foreign investors are entitled to transfer profits and income without being subject to a transfer tax. Investment returns are generally remitted within three working days.

Expropriation and Compensation

The Republic of Macedonia has not taken expropriation measures and there is no reason to believe that the government will take such action in the future. There has been no demonstrated tendency by the authorities to discriminate against U.S. investments. In fact, the government actively seeks out U.S. and other foreign investment. The government does not impose confiscatory taxes. According to the Constitution of Macedonia and the Law on Expropriation (Official Gazette 33/95, amended Official Gazette 20/98, 40/99, 31/03, and 46/05), foreign ownership is exempt from expropriation except during instances of war or natural disaster, or for reasons of public interest. Public interest, as defined by this Law, includes the following:

- Construction of infrastructure;
- Construction of power stations, waterworks, water supply systems, postal and communication systems and all accompanying and supporting infrastructure;
- Construction of buildings for defense and civil protection and the regulation of border crossings;
- Buildings and equipment for research of natural resources, education, science, health, culture, social security, athletics or activities; and
- Building settlements following extreme natural disasters and relocation settlements. The beneficiary of expropriation is the state, especially when it allocates finances for public service, public enterprise, public funding and local government units. Under the Law on Expropriation, the state is obliged to pay market value for any property expropriated. If the payment is not made within 15 days of the decision brought for expropriation, default interest will be calculated.

In 2002, under the Law on Denationalization, (http://unpan1.un.org/intradoc/groups/public/documents/UNTC/UNPAN015919.pdf), the government pursued an ambitious plan to return or provide compensation for nationalized property. In 2007, the government revived the project by extending the deadline for receiving denationalization claims to the end of 2007. Claimants filed a total of 30,744 claims, of which roughly 1,000 remain unresolved. Most of the unresolved cases have been transferred to the courts for adjudication. Compensation has included the return of property, compensation with equivalent property, or compensation with government bonds.

Dispute Settlement

Spurred by EU harmonization and deep engagement with the international community, Macedonia's legal system has undergone substantial reform. However, the administration of justice is not always uniform and the courts are often slow and inefficient, lacking adequate resources. They are also subject to political pressure and corruption. In 2009, the international community spoke out against significant improprieties in the conduct of a case involving the country's largest single investor, Austrian power distributor EVN. The resulting basic court ruling was reversed on appeal and returned to the lower court. In 2011, both EVN and ELEM (the government-owned power generator) agreed to reach an out-of-court settlement and judicial proceedings were terminated. While further steps were made toward finding solutions to all the open issues between the Government and EVN, ongoing discussions to resolve the remaining issues have been fruitless. Judges face improper pressures on a regular basis, while the system of appointments for the nation’s Judicial Council places a premium on political considerations. This trend became increasingly visible over the course of 2010 - 2011, continuing in 2012.

Under Macedonian law, the arbitration of international disputes is distinct from that of domestic disputes. The parties involved in an international dispute may agree to settle through: domestic litigation (Official Gazette Number 79/05; September 21, 2005), mediation (Law on Mediation;

Official Gazette 60/06; May 15, 2006), or foreign arbitration (Official Gazette Number 39/06; March 03, 2006). Ratified international agreements override domestic legislation.

International arbitration is recognized and accepted under the Law on Arbitration. The government accepts binding international arbitration on investment disputes and has registered over 40 internationally-accredited arbiters. An arbitration court functions within the Economic Chamber, but this dispute resolution mechanism remains underutilized.

Macedonia has either signed on to or inherited from the former Yugoslavia a number of bilateral and multilateral conventions on arbitration including: the Convention Establishing the Multilateral Investment Guarantee Agency (MIGA); the New York Convention of 1958 (governing the recognition and enforcement of foreign arbitral awards); and the Geneva Convention on the Execution of Foreign Arbitral Awards. Macedonia is also a party to the Washington Convention on the Settlement of Investment Disputes between States and Nationals of Other States, and the European Convention on International Commercial Arbitration.

The Law on Courts provides for a three-tiered court system: the Basic Court (or Court of the First Instance), the Appellate Court, and the Supreme Court. In 2007 an Administrative Court was established to try administrative law cases. A Constitutional Court adjudicates constitutional issues. In an effort to provide better resolution of business disputes and to improve the business environment, a Law on Mediation was adopted in 2006. This legislation provides for the training, testing, and certification of experts in different fields to act as mediators administered by the Ministry of Justice. An attempt to introduce mediation in pilot courts through U.S.-funded technical assistance produced only modest results, largely due to the lack of public awareness and the reluctance of legal practitioners to utilize this option.

Performance Requirements and Incentives

In its bid to attract foreign investment, the government has enacted a number of incentives and continues an extensive promotional campaign through international media outlets and high level government road shows.

Both the Law on Customs and the Law on Profit Taxes offer incentives to foreign investors. Foreign investors are eligible for profit tax exemptions for: profits generated during the first three years of operation in proportion to the amount of foreign investment; all profits reinvested in the company; profits invested in environmental protection; and profits invested in "underdeveloped" regions of the country. Companies with at least 20 percent foreign capital are exempt from customs duties for the first three years after their registration. In public campaigns, the government highlights the following to help spur foreign direct investment: a 10 percent flat tax for corporate profits and personal income; guaranteed relief from local taxes and fees; a tax exemption for duties on imported goods, raw materials, and equipment/machines.

Foreign investors are not required to purchase from local sources or to export all of their production. There are also no requirements for the government to be a partner in an enterprise.

Commercial agreements determine which entity retains control over the investment revenue. Furthermore, there are no requirements for reducing foreign equity over time or for technology transfer.

The government places an emphasis on greenfield projects in underdeveloped regions, offering tax deductions as an incentive to develop in mountainous territory, border zones, and/or rural regions for instance.

The Law on Residency of Foreign Citizens sets requirements for both working and resident visas. There are some non-discriminatory limitations on obtaining a visa. A foreign citizen working in Macedonia can be issued a multiple entry visa. An employer should apply to the Employment Bureau to obtain a work permit for any foreign employees working in Macedonia on a temporary or permanent basis. Many international businesses report, however, that the process of obtaining visas and work permits can be frustratingly slow. In December 2012, Macedonia's government adopted a decision to offer citizenship to anyone who invests USD 500,000 or more and employs at least 10 people.

There is no discriminatory export or import policy affecting foreign investors. Almost 96 percent of total foreign trade (export/import) is unrestricted. Current tariffs and other customs-related information are published on the Customs website, http://www.customs.gov.mk/en/DesktopDefault.aspx .

Right to Private Ownership and Establishment

Under Article 30 of the Constitution of the Republic of Macedonia, the investor's right to own property is guaranteed. Foreign investors may acquire property rights for buildings and rights for other immovable assets to be used in their business activities. They may acquire residential property as well as directly owning construction land (Law on Construction Land; Official Gazette Number 82/08; July 08, 2008). Ownership of property requires preservation of specific rights that serve both the individual and the community. For example, no person may be deprived of his/her property or the rights deriving from it unless the use of that property disaffects the general welfare of the public. If the property is expropriated or restricted, rightful compensation based on its market value is guaranteed by the Constitution (http://www.sobranie.mk/en/default.asp?ItemID=9F7452BF44EE814B8DB897C1858B71FF).

Under Macedonian law, foreign and domestic private enterprises have the right to establish and own business enterprises, engage in all forms of business activity, and freely establish, acquire, and dispose of interests in business activities. The Law on Protection of Competition (http://www.kzk.gov.mk/eng/law.asp; Official Gazette Number 04/05; January 25, 2005), amended in 2006 and again in 2007, is intended to guarantee fair business competition.

Protection of Property Rights

While the legal basis for the protection of ownership of both movable and real property exists, implementation remains incomplete. Although there have been significant improvements to the cadastre system the last two years, the system remains ineffective. When combined with the highly centralized control of government owned "construction land", it continued to impede business and investment. The delays and unplanned expenses for investors have been caused by the lack of coordinated local and regional zoning plans and the lack of an efficient construction permitting system. Additionally, investors' potential utilization of land is inhibited by the large number of lingering property ownership disputes. An effort has been made, however, to improve the registration of real estate through the utilization of an electronic service which has helped to increase the security and speed of real-estate transactions.

In 2011, the government implemented a project to legalize property built without construction permits at a cost of 1 Euro per square meter. This project allowed for over 350,000 illegally built structures (95% of which belonged to families of below average income) to be legally registered. There was, however, one instance where a large commercial building under construction and owned by an opposition Member of Parliament was torn down over minor zoning violations in apparent violation of relevant regulations.

The government continues to seize and destroy counterfeit items and has taken some legal action against those who produce and sell counterfeit goods through the activity of the Coordinative Body for Intellectual Property. Nevertheless, overall enforcement remains weak and counterfeit goods remain common in shops and markets throughout Macedonia. As an EU candidate country, Macedonia is obliged to harmonize its IPR laws and regulations with EU standards and to demonstrate adequate enforcement of those laws. The Government's Secretariat for European Affairs is responsible for coordinating this effort.

Intellectual Property Rights are protected under: the Law on Industrial Property from 2009 (harmonized with the EU legislation); the Law for Authors and Common Rights (new law adopted in September 2010); and the Law on Customs Measures for Protection of IPR (enacted in 2006 and amended in 2011). The State Institute for Industrial Property governs patents, trademarks, service marks, designs, models, and samples. The protection of author's rights and other related rights (music, film and television, books, software, etc.) is administered by the Ministry of Culture, while the State Market Inspectorate is responsible for monitoring markets and preventing the sale of counterfeited or pirated goods.

Under the Law on Customs Measures for Protection of IPR, the Customs Administration has enhanced authority to investigate cases of counterfeit goods. It has the right to preemptively seize suspect goods thereby preventing their further distribution pending final disposition and notice of the right holder confirming whether or not the seized goods are counterfeit.

The penalties for IPR infringement depend on the seriousness of the violation. In order of severity, the penalties can include: 30 – 60 days closure of businesses, monetary fines of up to 5,000 euro, or prison sentence up to 5 years. IPR cases are not handled by specialized courts.

Macedonia joined the World Intellectual Property Organization (WIPO) in 1993 and in 1994 became a member of the Permanent Committee of Industrial Property Protection Information of WIPO. As a successor to the former Socialist Federal Republic of Yugoslavia, Macedonia is a party to international conventions and agreements that the former Yugoslavia signed prior to Macedonia's independence.

Transparency of Regulatory System

There are no laws, policies, or legal regulations that formally would impede foreign investment in Macedonia. Unfortunately, excessive bureaucratic 'red tape' still poses difficulties in all spheres of government administration, providing opportunities for corruption and delaying administrative processes. Reports of inefficient and corrupt practices remain common. Members of the business community frequently complain of opaque processes and the unclear division of responsibilities within and between bureaucracies, thereby underscoring the difficulty and importance of the implementation of legislated reforms. In its determination to become an EU member, Macedonia has harmonized most of its legislation with the EU. Implementation remains weak, however, and there are even examples of laws contradicting one another.

Since 2006, the government has produced extensive legislative reform through a "regulatory guillotine" process that seeks to identify excessive regulatory procedures. The government claims that over 50 percent of all administrative procedures were eliminated in this process.

In the World Bank's "Doing Business 2013" report, Macedonia was ranked 23rd easiest country in which to do business out of 183 countries, a slight drop from last year’s 22nd place. Although the same report ranked Macedonia as the fifth best reforming country in the world, new reforms often are not fully implemented due to a lack of administrative capacity. Additionally, the reforms are often not comprehensive and their effect has been underwhelming for the business and investment environment as a whole.

Efficient Capital Markets and Portfolio Investment

There are no legal barriers to the free flow of financial resources and portfolio investments. Financial resources are almost entirely managed through the Macedonian banking system. In 2012, foreign capital was present in 15 out of a total of 16 banks, and was dominant in 12 banks. According to the National Bank of the Republic of Macedonia (NBRM), foreign investors' share in total banking capital at the end of Q3 2012 was 74.7 percent, which is 1.4 percentage points more than it was one year ago. Most banks experienced a moderate increase of non-performing loans (NPL) in the first three quarters of the year due to the global economic crisis’ effects on the real economy. At the end of September 2012, NPL accounted for 10.9 percent of total credit, a 1.1 percentage point increase from the same period of the previous year. Unlike the real sector, the banking sector weathered the crisis relatively smoothly and remains profitable, with profits in the first three quarters of 2012 1.5 times higher than the same period in 2011.

Supervisory monitoring by the NBRM has continuously strengthened, enhancing depositors' confidence. In 2012, banks further increased their liquid assets, which at the end of September 2012 were 7.3 percent higher compared to the same period in 2011. At the same time, the intermediation rate (measured as total assets/GDP) dropped to 67 percent and is considered very low even by regional standards. Credit is available on the local market and is allocated by market terms. Credit to private sector growth slowed down to 6.5 percent at the end of October 2012, prompting the NBRM to revise its end-year projection down to 7 percent. Primary risks are coming from the Eurozone crisis, triggering more prudent and conservative lending. The Central Bank tried to encourage credit growth by lowering the reference rate, (the interest rate on Central Bank (CB) bills) to 3.75 percent in May 2012. Despite this, banks remained cautious in extending loans, even while demand for credit from the private sector increased. The credit crunch initiated liquidity problems, especially for SMEs. The weighted average lending rate of the banking system at the end of November 2012 was 8.3 percent, while the deposit rate was 4.8 percent.

Domestic companies secure financing primarily from their own cash flow due to the lack of corporate bonds and securities as alternative credit instruments. Because of the scarcity of other private financing, credit demand is high, affecting interest rates. The leasing market is still underdeveloped and continues to suffer, even though competition for clients has increased. Savings houses' share in the total assets of the banking system remained low at below 1 percent, while other institutions providing financial services have a total market share of nearly 1 percent.

Macedonia's securities markets are still modest in turnover and capitalization. The establishment of the Macedonian Stock Exchange (MSE) in 1995 made it possible to regulate portfolio investments. After reaching its peak in August 2007, the MSE index has steadily dropped, reflecting the effects of the global economic crisis. In 2012, foreign portfolio investors accounted for 13.1 percent of total MSE turnover, 9.5 percentage points less than in 2011. Market capitalization in 2012 was $2.4 billion, a 5.1 percent drop from 2011. The main index, MBI10, lost 12.3 percent of its value from the beginning of the year, closing at 1,731 points at the end of 2012.

The Macedonian Security and Exchange Commission (SEC) must license all MSE members for trading in securities, while regulating the market. MSE has two market segments: the Official Market and the Regular Market. Companies listed on the Official Market must publicly disclose any price sensitive information related to their operation on a regular basis. The Regular Market has two sub-segments: a market for publicly-held companies which include companies that have special reporting requirements for the SEC and a "free market" which includes all other companies that provide a minimal disclosure of records. Thirty-two companies were listed on the Official Market at the end of 2012. Most of the trading activity takes place on the Official Market, where better-standing companies are listed and there is greater transparency and information disclosure.

Individuals do trade at the MSE, but mostly by themselves and not through an investment fund. Investment funds started appearing at the market in late 2007. The emergence of the global financial crisis severely limited investment fund operations with a few of them, as well as few brokerage houses, closing down. Government paper is present on the stock exchange in the form of denationalization bonds and a few special purpose bonds. In January 2004, the government started issuing treasury bills and more recently has diversified the terms of maturity, working for longer-term bills. In 2009, it started issuing T-bills with a foreign exchange clause. These are are very attractive to domestic banks. A fully convertible current account places no restrictions on portfolio investments, but short-term capital inflows are still relatively low even by regional standards. Full liberalization of the capital account which would allow Macedonians to open foreign bank accounts in Macedonia has not been implemented.

Macedonia does not have any regulatory or defensive measures in place which are directed against foreign investment. Similarly, there are no private or government efforts directed toward the restriction of foreign investment and participation in or control of domestic enterprises, consortia, or industrial organizations. On the contrary, since 2007 the GOM has run an expansive campaign to attract foreign investors. This campaign includes the promotion of Macedonia in many of the world's leading newspapers and magazines, and the visitation of many governments, businesses, and business associations throughout the world. Besides two Ministers for Foreign Investment whose responsibilities are similar to those of a corporate headhunter the government employs its agency Invest Macedonia to target potential investors. Invest Macedonia has sent over 25 economic promoters to different countries to attract foreign investors. Macedonia is in the process of harmonizing its legal and regulatory systems with international, primarily European Union, standards.

Competition from State Owned Enterprises

State owned enterprises (SOEs) are all considered to be public enterprises in which the government is the dominant shareholder. The Constitution of the Republic of Macedonia establishes the same terms of competition for both private and public enterprises with respect to access to markets, credit, and other business operations to include licenses and supplies. Under the law, SOEs are not given favorable positions or material advantages. There are SOEs operating in several sectors of the economy including the energy, banking, water supply, communal utilities, and public transportation sectors. There are also sectors such as arms production and narcotics in which private enterprises may not operate without government approval. SOE general managers are usually appointed by the government. Members of SOE boards of directors are usually comprised of both internal and external members appointed by the government. SOE general managers, however, routinely report to a line minister. A sovereign wealth fund does not/not exist in Macedonia.

Corporate Social Responsibility

Although activities to promote corporate social responsibility have created some degree of awareness, corporate social responsibility remains an unclear and nascent concept. It is often perceived as an obligation pertaining only to large and profitable companies, with most businesses focusing only on items needed to turn a profit.

The American Chamber of Commerce in Macedonia has organized business forums with an aim to help integrate corporate social responsibility into business practices and to make businesses more responsible to all of their stakeholders including the community. Established in December 2007, the National Corporate Social Responsibility Body is working to mobilize companies to incorporate corporate social responsibility practices in their business strategies.

Political Violence

Since 2001, Macedonia has been essentially free of political violence. Aside from isolated incidents, even politically-charged events such as the public celebration of 100 years of Albanian Independence this year have not sparked violence. However, political and ethnic tensions remain heightened. In December, the government forcibly ejected the opposition from Parliament after a disagreement over the proposed 2013 budget. Macedonian authorities have worked to improve their ability to provide security and stability in an effort to focus the country on economic development and EU and NATO integration. Despite delays in joining the EU and NATO, the international community vigilantly continues to press the GOM to continue with reforms and to avoid backsliding in the areas of rule of law and media freedom. A contributor to peacekeeping efforts in Afghanistan and elsewhere, Macedonia aims to be a net provider of international security and stability.

Corruption

Although most of the necessary laws are in place, legal enforcement is weak and the public is skeptical of the government's willingness to prosecute corrupt officials within its ranks. The public generally views the police, courts, higher education, and healthcare sectors as the most corrupt public sectors. Instances of selective prosecution have compounded public mistrust of government institutions. Investors and businesspeople have reported being solicited for bribes, particularly when participating in public procurements and government projects. Corruption frequently is related to lack of capacity, as regulators and bureaucrats who do not fully understand their own duties and responsibilities, have been reported to feign reluctance to act until a bribe or other incentive is offered to justify their taking the "risk" of fulfilling their duties. Transparency International ranked Macedonia on 69th place (same as last year) on the 2012 Corruption Perception Index.

The government has reduced opportunities for corruption by adopting "e-government" systems for managing international cargo transport licenses, for issuing export/import licenses, and for managing public procurement. The Customs Agency in particular has improved services through internal reforms and the adoption of electronic customs clearance solutions. The simplified and automated processes enable businesses to monitor the status of their applications in these areas. Such systems are an improvement, but businesses frequently report that processes are still not completed quickly and that they are under-utilized in the case of public procurement.

The Law on Criminal Procedure criminalizes bribery and abuse of official position. Other anti-corruption laws include the Law on Money Laundering Prevention and the Law on Corruption Prevention, which provide for penalties including prison and confiscation of illegally-obtained property. Macedonia has signed the Organization for Economic Cooperation and Development's (OECD) Convention on Combating Bribery. Macedonia ratified the UN Convention against Corruption in early 2007, and has ratified the UN Convention against Transnational Organized Crime.

Bilateral Investment Agreements

Macedonia has concluded an "Agreement for Promotion and Protection of Foreign Direct Investments" with the following countries: Albania, Austria, Bosnia and Herzegovina, Bulgaria, Belarus, Belgium, Luxembourg, Germany, Egypt, Iran, Italy, India, Spain, Serbia, Montenegro, China, North Korea, Malaysia, Poland, Romania, Russia, Slovenia, Turkey, Ukraine, Hungary, Finland, France, the Netherlands, Croatia, Czech Republic, Switzerland, and Sweden.

Macedonia is a signatory of three multilateral Free Trade Agreements:

- SAA (Stabilization and Association Agreement) with the EU member-states;
- EFTA (European Free Trade Agreement) with Switzerland, Norway, Iceland and Liechtenstein; and
- CEFTA (Central European Free Trade Agreement) with Albania, Moldova, Croatia, Serbia, Montenegro, Bosnia and Herzegovina and Kosovo.

Bilateral Free Trade Agreements are in force with Turkey and Ukraine.

Macedonia does not have a bilateral investment or double taxation treaty with the United States.

OPIC and Other Investment Insurance Programs

Financing and insurance for exports, investment, and development projects are made possible through agencies such as the U.S. Trade and Development Agency (TDA); the U.S. Export-Import Bank (EX-IM); the Overseas Private Investment Corporation (OPIC); the European Bank for Reconstruction and Development (EBRD); the International Bank for Reconstruction and Development (World Bank); the International Finance Corporation (IFC); the Multilateral Investment Guarantee Agency (MIGA); and the Southeast Europe Equity Fund (SEEF). Most of the funding for major projects is achieved through co-financing agreements, especially in the transportation, telecommunications, and energy infrastructure development fields.

OPIC and MIGA are the country's chief investment insurance providers. OPIC insurance and project financing have been available to investors in Macedonia since 1996. OPIC's three main activities are risk insurance, project finance, and investment funding. MIGA provides investment guarantees against certain non-commercial risks (i.e., political risk insurance) to eligible foreign investors who make qualified investments in developing member countries. MIGA covers investors against the risks of currency transfer restrictions, expropriation, breach of contract, and war or civil disturbance.

Although its primary focus is investment assistance - including direct loans and capital guarantees aimed at the export of non-military items - EX-IM also provides insurance policies to protect against both political and commercial risks. TDA, SEEF, World Bank, and EBRD focus more directly on financing agreements.

Labor

Relations between employee and employer are generally regulated by an individual employment contract pursuant to Section II, Articles 13-21 of the Law on Working Relations. Employment of foreign citizens is regulated by the Law on Foreigners. The employment contract, which must be in writing and kept on the premises, should address the following provisions: description of the employee's duties, duration of contract (finite or indefinite), effective and termination date, location of work place, hours of work, rest and vacation periods, qualifications and training, and salary and pay schedule.

The law is relatively flexible with regard to working hours. Normal working hours for an employee are eight hours per day, five days per week. According to labor regulations, an employee is entitled to a minimum of 20 working days and a maximum of 26 working days of paid annual leave during the course of a calendar year. Work permits are required for foreign nationals. There is, however, no limitation on the number of employed foreign nationals or the duration of their stay. As noted above, many international businesses report that the process of obtaining visas and work permits can be frustratingly slow.

There are two main associations of trade unions - The Union of Trade Unions and the Confederation of Free Trade Unions. Each association is comprised of independent branch unions from the public and private business sectors. Both associations, along with the representatives of the two largest employer associations and representatives from relevant ministries, are members of the Economic Social Council. The Council meets regularly to discuss issues of concern for both employers and employees and reviews amendments to labor related laws.

Trade unions are interest-based, autonomous labor organizations. Membership is voluntary and activities are financed by membership dues. Almost 75 percent of legally employed workers are dues-paying union members. However, largely as a result of Macedonia’s high unemployment, its generally difficult economic climate, and political infighting, unions generally do not exercise much leverage on employers.

In 2011, the Government, employers associations, and trade union associations agreed on a minimum wage of 8050 MKD ($187) per month. The Law on Minimum Wage, which took effect on January 1, 2012, will be phased in over a three year period.

National collective bargaining agreements are negotiated between labor unions, the Ministry of Labor and Social Welfare, economic chambers, and employer associations. There are two main agreements for the public and private sectors on the national level. Separate contracts are negotiated by union branches or at the industry or company level. Key challenges faced by unions include high levels of unemployment and the effects of privatization on inefficient state companies.

Foreign Trade Zones/Free Trade Zones

There are four major designated free trade zones, known as Technological Industrial Development Zones (TIDZs), in Macedonia: Skopje 1 (Bunardzik), Skopje 2 (an area north of Skopje), an area in the city of Stip, and an area in the city of Tetovo. Amended legislation (http://www.fez.gov.mk/tir-zones-law.html) has been prepared for the permitting and regulation of such zones. A Directorate for Technological Industrial Development Zones (http://www.fez.gov.mk) has been established in order to develop, establish, and supervise activities in TIDZs.

In 2006, Johnson Controls, an American automotive components manufacturer, invested in a manufacturing plant in the Bunardzik TIDZ and began operations in mid-December 2007. The Johnson Controls factory produces automotive electronic equipment and has steadily grown since its opening, now employing almost 150 workers. In October 2011, Johnson Controls began construction of a car seat cover plant in the Stip TIDZ. When completed and operational, this new Johnson Controls plant is expected to create 1,400 new jobs. Another U.S. based company, Kemet Electronics Corporation who produces capacitors, invested in a production facility at the Skopje 1 (Bunardzik) TIDZ. With operations commencing in October 2012, Kemet Electronics will gradually create 500 new jobs. Other foreign investors present at the Bunardzik TIDZ include: Johnson-Matthey who produces catalytic converters for automobiles; TeknoHose which is an Italian firm who produces high-pressure hydraulic fittings; and Protek Group which is a Russian pharmaceutical company. Samvardhana Motherson Reflectec is also constructing a plant in the Bunardzik TIDZ and will produce die-cast automobile parts and exterior glass for rearview mirrors. Van Hool is a Belgium manufacturer of busses and is investing in a production facility at TIDZ Skopje 2. When completed and operational, this facility will produce 400 buses annually.

Foreign Direct Investment Statistics

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1. Net Foreign Direct Investment by Year ($ millions):

Year	$ Millions
2000	215.1
2001	447.1
2002	105.6
2003	117.8
2004	323.0
2005	97.0
2006	424.2
2007	699.1
2008	587.0
2009	197.1
2010	211.0
2011	463.3
Oct. 2011	61.4

(Source: National Bank of the Republic of Macedonia)

2. Net Foreign Direct Investment by Country ($ millions) (for selected countries):

Country	2006	2007	2008	2009	2010	2011	Q3 2012
Greece	51.2	61.2	10.8	-103.5	10.0	2.6	-16.0
Germany	0.7	12.6	6.0	-0.2	8.1	9.1	11.4
Austria	155.2	14.5	141.8	49.3	43.3	104.5	70.4
Hungary	1.0	99.9	-12.2	-0.02	-65.1	-6.4	-14.1
Switzerland	27.2	42.4	37.0	12.2	-24.5	4.7	3.8
Slovenia	12.9	85.6	114.9	133.9	14.0	45.4	-32.4
Netherlands	18.5	37.1	3.5	127.1	-51.4	110.9	-14.7
Serbia	19.0	75.5	5.0	0.7	-0.1	2.6	0.3
Great Britain	15.1	55.0	53.2	-67.6	75.1	-77.6	-17.3
Cyprus	34.0	4.5	6.9	1.8	7.2	5.2	0.3
U.S.A.	7.8	2.2	13.1	6.8	-0.03	2.4	11.6

(Source: National Bank of the Republic of Macedonia)

3. Top Foreign Investments through Privatization and Post-Privatization:

Name	Country	Investment	$ million	Year
Stonebridge	(various)	Makedonski Telekom	346.5	2000
EVN	Austria	ESM Distribution	270.2	2006

Telekom Slovenije	Slovenia	Cosmofon, Germanos, OnNet	247.0	2009
Johnson Matthey	UK	Johnson Matthey	88.0	2009
Steiermarkische Bank und Sparkasse AG	Austria	Invest Banka	65.3	2008
National Bank of Greece	Greece	Stopanska Banka Skopje	46.4	2000
Johnson Controls	USA	Johnson Controls	40.0	2010
Demir-Halk Bank	The Netherlands	IK Banka	34.3	2008
Balkanbrew Holding	Greece	Skopje Brewery	34.0	1998
Hellenic Petroleum	Greece	OKTA refinery	32.0	1999
Société Générale	France	Ohridska Banka	30.4	2007
Titan, Holderbank	Greece, Switz.	Usje Cement Factory	30.0	1998
Kemet Electronics	USA	Kemet Electronics	25.0	2012
NLB Group	Slovenia	Tutunska Bank	24.2	2000
Balkan Steel	Liechtenstein	Ladna Valalnica	21.0	1997
Centralna Kooperativna Banka	Bulgaria	Sileks Banka	19.6	2008
QBE Insurance	UK	ADOR Makedonija	14.8	2000
Elbisko SA Atika	Greece	Zito Luks Skopje	14.0	2001
Samvardhana Motherson Group	India	Samvardhana Motherson Group	12.0	2012
Duferco Skop Investments LTD	Liechtenstein	Makstil	11.5	1997
East West Trade	Austria	Centro	11.0	1996
TeknoHose	Italy	Vitek Macedonia	10.0	2012
FHL Kirijakidis S.A.	Greece	Mermeren kombinat Prilep	9.6	2000
Milestone	Iceland	KIB Kumanovo	6.4	2007
Protek Group	Russia	Protek Group	5.0	2012
KNAUF Gmb	Austria	Radika Debar	3.5	1997

Gerlico Group	The Netherlands	Steel Con	3.5	2011
KuppBall- Transthandel	Germany	FZC Kumanovo	3.4	2000
Tobacna Ljubljana	Slovenia	Tutunski kombinat Skopje	3.0	1999
ERA Velenje	Slovenia	Skopski Saem	2.9	2001
Alskop GmbH	Germany	Fabrika za kabli Negotino	2.9	2000
Intabex Netherlands	The Netherlands	Jugotutun Kavadarci	2.4	1997
SCMM	France	Feni-Kavadarci	2.3	2000

4. Macedonia's Direct Investment Abroad (in USD as of end 2009):

SR Yugoslavia	211.5
Serbia	163.8
Croatia	68.2
Bulgaria	24.5
Albania	22.2
China	11.7
Greece	8.7
Ukraine	8.1
Germany	5.3
U.S.A.	3.6

(Source: National Bank of the Republic of Macedonia)